

The Revenue Outlook

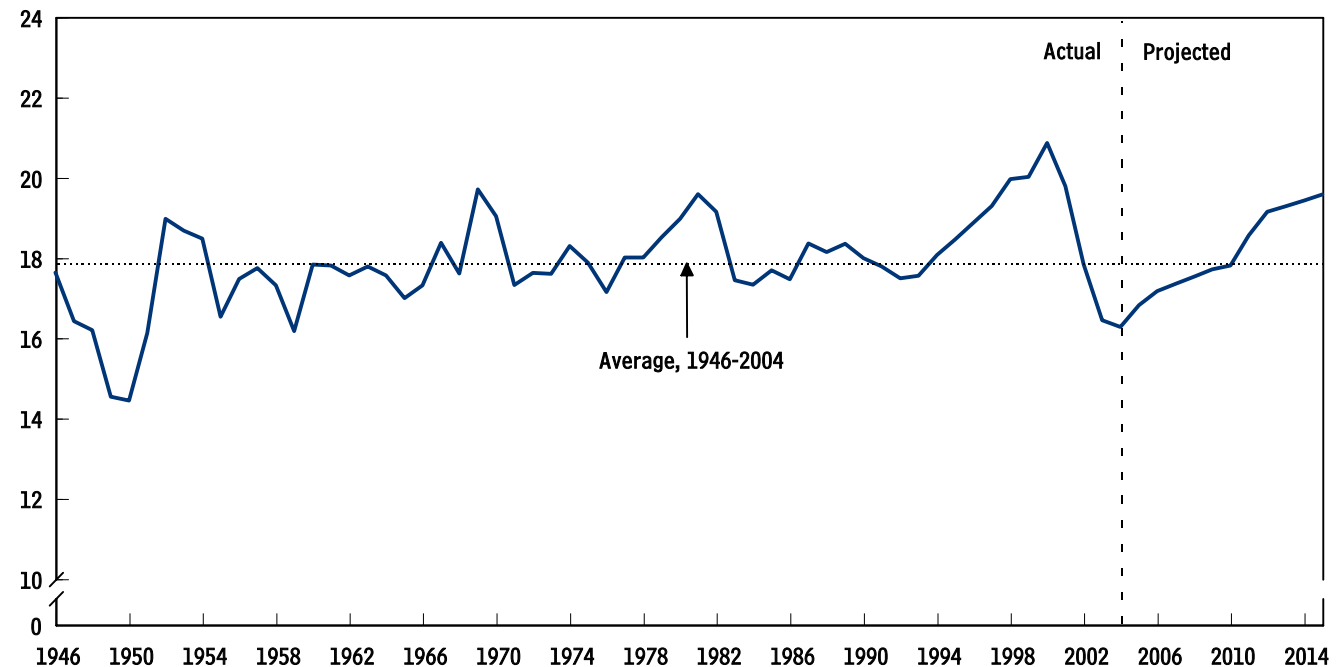
The Congressional Budget Office estimates that federal revenues will reach \$2.1 trillion in 2005 if current policies remain the same. That amount is about 9 percent (or \$177 billion) higher than revenues in 2004. As a share of gross domestic product, revenues are projected to rise from 16.3 percent in 2004 to 16.8 percent this year, below the postwar average of 17.9 percent but the first increase since 2000 (see Figure 4-1).

Over the following 10 years through 2015, receipts are expected to continue increasing, growing faster than GDP in every year (see Figure 4-2). That increase is driven partly by the structure of the tax system, which causes revenues to claim a higher fraction of income every year as income grows. An even larger part of the rise is concentrated in specific years, with the biggest jump in 2011, when various taxes are scheduled to increase under current law. By 2015, revenues are projected to reach 19.6 percent of GDP.

Figure 4-1.

Total Revenues as a Share of GDP, 1946 to 2015

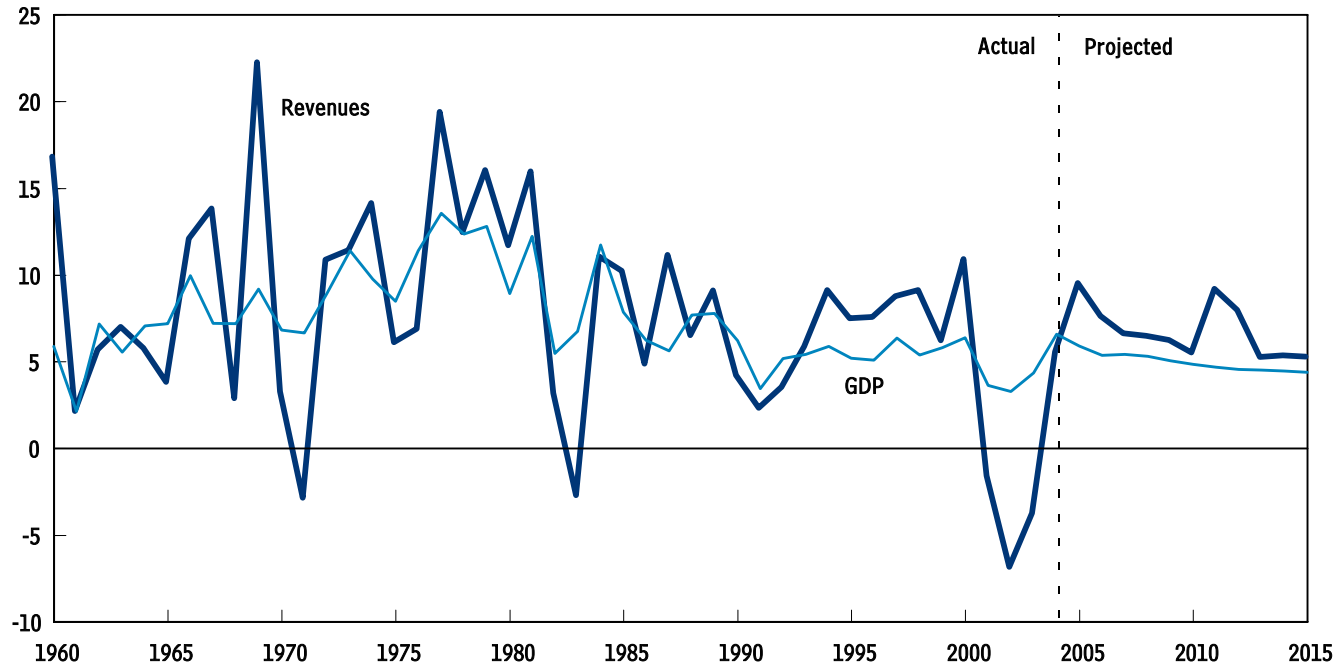
(Percentage of GDP)



Source: Congressional Budget Office.

Figure 4-2.**Annual Growth of Federal Revenues and GDP, 1960 to 2015**

(Percentage change from previous year)



Source: Congressional Budget Office.

CBO's current revenue projections are, on average, very close to those it published in September 2004. CBO is now projecting a total of \$209 billion less in receipts for the 2005-2014 period—less than 1 percent of its projections last summer. Roughly three-fifths of that reduction stems from new legislation.

Revenues by Source

Federal revenues derive from various sources: individual income taxes, social insurance (payroll) taxes, corporate income taxes, excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts. In recent years, individual income taxes have typically produced nearly half of all revenues and claimed between 8 percent and 10 percent of GDP (see Figure 4-3). Social insurance taxes (mainly for Social Security and Medicare's Hospital Insurance) are the second largest source of receipts. They generate approximately a third of federal revenues and amount to a little less than 7 percent of GDP. Corporate income taxes contribute about one-tenth of overall revenues and have usually represented between 1.5 percent and 2 percent of GDP. Revenues from other taxes, duties, and miscellaneous receipts (including profits from the

Federal Reserve System) make up the balance and together constitute about 1.5 percent of GDP.

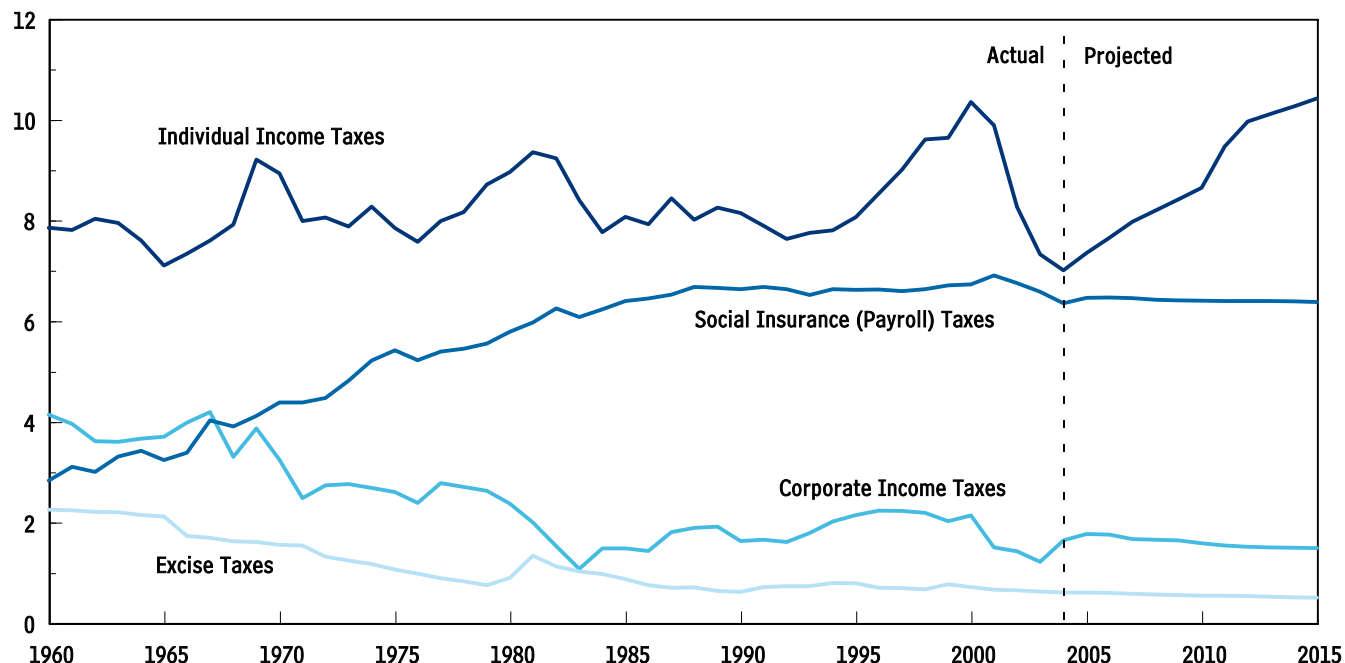
During the post-World War II period, corporate income and excise taxes have declined in importance and payroll taxes have become more significant. Since the early 1950s, corporate income and excise taxes together have declined from nearly half of receipts to less than 15 percent. Over the same period, payroll taxes have increased from slightly more than 10 percent of revenues to more than one-third.

In 2004, receipts of individual income taxes equaled 7 percent of GDP—1 percentage point below their postwar average of 8 percent. The level of those receipts in 2004 was lower as a percentage of GDP than in any year since 1951. The level projected for 2005, although higher, is still unusually low by postwar standards.

Over the coming decade, the path of total receipts will be primarily driven by individual income taxes. Receipts from those taxes, measured relative to GDP, are projected to rise by 3.4 percentage points from 2004 to 2015, more than accounting for the projected increase of 3.3

Figure 4-3.**Revenues, by Source, as a Share of GDP, 1960 to 2015**

(Percentage of GDP)



Source: Congressional Budget Office.

percentage points for total receipts relative to GDP over that period.

About half of the growth in individual receipts will result from changes in tax law including a lower alternative minimum tax (AMT) exemption beginning in 2006; higher tax rates on dividends and capital gains starting in 2009; and an increase in statutory tax rates, reduction in child credit amounts, contraction of joint filers' tax brackets, and other changes in 2011 that will increase taxes. The other half of the growth results from the structure of the tax code, which causes tax rates effectively to rise as income grows, and from other factors, such as a rapid increase in distributions from tax-deferred retirement accounts.

Other revenue sources will change somewhat during the baseline period but with little net effect over that decade. Corporate income taxes are also expected to grow in importance for the next few years as the investment incentives enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) and the Job Creation and Worker Assistance Act of 2002 (JCWAA) expire. But af-

ter rising to 1.8 percent of GDP in 2005 and 2006, corporate income taxes are expected to slip back to their current levels and then below by 2009. Estate and gift taxes are expected to drop to historically low levels relative to GDP in 2010 and 2011 as a result of the phaseout of the estate tax and then regain their previous importance after the tax is reinstated in 2011. Excise taxes will continue their slow decline in significance as a revenue source.

Those changes—especially the ones associated with the individual income tax—will markedly increase the total tax revenues collected by the federal government. From the lowest ratio of revenues to GDP in nearly 50 years—16.3 percent in 2004—receipts in CBO's projection rise to 19.6 percent of GDP in 2015, a level matched or exceeded only a half-dozen times since 1945.

Revenue Projections in Detail

Individual Income Taxes

Individual income taxes account for most of the projected increase in revenues as a share of GDP over the next 10

Table 4-1.**CBO's Projections of Revenues**

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
In Billions of Dollars														
Individual Income Taxes	809	899	986	1,082	1,172	1,265	1,362	1,561	1,718	1,822	1,932	2,048	5,867	14,947
Corporate Income Taxes	189	216	226	226	237	246	249	254	261	270	281	292	1,184	2,542
Social Insurance Taxes	733	790	833	876	918	962	1,009	1,054	1,102	1,151	1,202	1,253	4,598	10,360
Excise Taxes	70	74	77	79	81	83	85	89	92	94	96	98	405	874
Estate and Gift Taxes	25	24	27	25	26	27	21	19	43	46	52	58	126	344
Customs Duties	21	21	23	25	27	28	29	30	31	33	35	37	133	299
Miscellaneous Receipts	33	34	39	44	47	50	52	54	56	58	60	62	231	521
Total	1,880	2,057	2,212	2,357	2,508	2,662	2,806	3,062	3,303	3,474	3,657	3,847	12,545	29,888
On-budget	1,345	1,484	1,607	1,719	1,836	1,956	2,066	2,288	2,494	2,629	2,775	2,928	9,184	22,297
Off-budget ^a	535	573	605	638	672	706	740	774	809	845	882	919	3,361	7,591
Memorandum:														
Gross Domestic Product	11,553	12,233	12,888	13,586	14,307	15,029	15,757	16,494	17,245	18,023	18,826	19,652	71,566	161,806
As a Percentage of GDP														
Individual Income Taxes	7.0	7.3	7.7	8.0	8.2	8.4	8.6	9.5	10.0	10.1	10.3	10.4	8.2	9.2
Corporate Income Taxes	1.6	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.7	1.6
Social Insurance Taxes	6.3	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Excise Taxes	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Estate and Gift Taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.3	0.3	0.3	0.2	0.2
Customs Duties	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Miscellaneous Receipts	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total	16.3	16.8	17.2	17.3	17.5	17.7	17.8	18.6	19.2	19.3	19.4	19.6	17.5	18.5
On-budget	11.6	12.1	12.5	12.7	12.8	13.0	13.1	13.9	14.5	14.6	14.7	14.9	12.8	13.8
Off-budget ^a	4.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7

Source: Congressional Budget Office.

a. Social Security.

years (see Table 4-1). That is not surprising because they represent about half of all federal receipts and they were responsible for most of the movement in total receipts relative to the economy—first up, then down—over the past decade. Individual income tax receipts more than doubled in nominal dollars between 1992 and 2000, recording an average annual growth rate of nearly 10 percent and reaching a historical peak of 10.3 percent of GDP. Since then, individual income tax receipts have fallen as a share of GDP for four consecutive years, reaching 7.0 percent in 2004, their lowest level since 1951. The downturn in receipts resulted in large part from the substantial stock market decline of 2000 through 2002 and the 2001 recession; it was reinforced by the tax cuts enacted in several stages between 2001 and 2004. After

the recession ended in late 2001, the slow pace of recovery in personal income held down growth in tax receipts. In 2004, receipts grew in dollar terms for the first time since 2000, but they remained nearly 20 percent below their dollar peak in 2000.

Because some of the factors that weakened revenues over the past four years are temporary, and because the design of the income tax system causes revenues to grow more strongly than output, CBO projects that individual income tax receipts will increase relative to GDP starting in 2005 and continue throughout the next 10 years. By 2008, receipts are projected to rise above their post-World War II average of 8.0 percent of GDP. The rise will become especially pronounced after 2010, following

Table 4-2.**CBO's Projections of Individual Income Tax Receipts and the NIPA Tax Base**

	Actual												Total, 2006- 2010	Total, 2006- 2015
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Individual Income Tax Receipts														
In billions of dollars	809	899	986	1,082	1,172	1,265	1,362	1,561	1,718	1,822	1,932	2,048	5,867	14,947
As a percentage of GDP	7.0	7.3	7.7	8.0	8.2	8.4	8.6	9.5	10.0	10.1	10.3	10.4	n.a.	n.a.
Annual growth rate	1.9	11.1	9.8	9.8	8.3	7.9	7.6	14.6	10.0	6.1	6.0	6.0	n.a.	n.a.
Taxable Personal Income														
In billions of dollars	7,676	8,132	8,610	9,128	9,646	10,132	10,625	11,126	11,633	12,152	12,689	13,243	48,141	108,984
As a percentage of GDP	66.4	66.5	66.8	67.2	67.4	67.4	67.4	67.5	67.5	67.4	67.4	67.4	n.a.	n.a.
Annual growth rate	4.6	5.9	5.9	6.0	5.7	5.0	4.9	4.7	4.6	4.5	4.4	4.4	n.a.	n.a.
Individual Receipts as a Percentage of Taxable Personal Income														
	10.5	11.0	11.5	11.9	12.1	12.5	12.8	14.0	14.8	15.0	15.2	15.5	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax base in this table (taxable personal income) reflects income as measured by the national income and product accounts (NIPAs) rather than as reported on tax returns. An important difference, therefore, is that it excludes capital gains realizations.

n.a. = not applicable.

scheduled increases in statutory tax rates along with other changes in tax law. Individual income tax receipts are projected to reach 10.0 percent of GDP in 2012 and to hit a new historical peak of 10.4 percent of GDP in 2015.

Projecting Receipts in 2005. CBO projects that individual income tax receipts will grow by a strong 11 percent in 2005 (see Table 4-2). That growth in receipts is partly driven by CBO's projection that taxable personal income—as measured by the national income and product accounts—will grow by 5.9 percent in 2005, the largest increase since 2000. (Taxable personal income includes wages and salaries, dividends, interest, rent, and proprietors' income. See Box 4-1 for a description of taxable personal income and other components of various tax bases.) Although growth in receipts of individual income taxes typically exceeds growth in personal income by roughly a percentage point in an expanding economy (the phenomenon of “real bracket creep” described below), receipts growth in 2005 is expected to substantially outstrip growth in taxable personal income by more than 5 percentage points. That growth is expected to occur because of past legislative changes and strong increases in profits of S corporations, personal realizations of capital gains, and pension distributions.¹

The implementation and expiration of tax provisions enacted in JCWAA and JGTRRA are projected to contribute about \$30 billion, or 3.5 percentage points, to revenue growth in 2005. First, the partial-expensing provision, which was first enacted in JCWAA in 2002 and then expanded a year later in JGTRRA, expired at the end of calendar year 2004. The provision allowed businesses to reduce taxes by taking an additional first-year depreciation deduction of 50 percent of qualifying fixed investments, with the rest of the investment depreciated under normal rules, effectively backloading tax liability. As a result, taxes generated by business activity were reduced in 2004 and increased in 2005. Although most of the provision's effect is on corporate receipts, a substantial share of qualifying investments are made by S corporations, partnerships, and sole proprietorships, which are all taxed under the individual income tax.

1. S corporations are domestically owned corporations with no more than 100 shareholders that elect to be taxed like partnerships. An S corporation is exempt from the corporate income tax, but its owners pay income taxes on all of the firm's income, even if the income is retained by the firm.

Box 4-1.**Tax Bases and Tax Liability**

Tax receipts vary with economic activity, but they do not move in lockstep with gross domestic product (GDP), or output. Although the bases for individual and corporate income taxes and for social insurance taxes are related to GDP, they differ from it in a number of important respects, which means that they sometimes grow faster and sometimes slower than output. As a result, the ratio of receipts to GDP may change even if tax laws remain the same.

The Individual Income Tax Base

The first approximation of the individual income tax base includes dividends, interest, wages and salaries, rent, and proprietors' income. That measure, referred to here as **taxable personal income**, excludes depreciation, taxes on businesses (such as corporate income and excise taxes), retained corporate profits, and employees' fringe benefits that are not received by individuals in taxable form.

That income measure must be narrowed further to obtain the tax base of the income tax. Some of that income accrues to tax-exempt entities such as hospitals, schools, cultural institutions, and foundations; some is earned in a form that is tax-exempt, such as income from state and local bonds; and some is tax-deferred, such as income earned in retirement accounts, on which tax is paid not when the income is accrued but when the person retires and begins to draw down the account. Also, personal interest and rental income contain large components of imputed income—income that is not earned in a cash transaction, including personal earnings within pension funds and life insurance policies and income from owner-occupied housing. Such income is not tax-

able. Consequently, a substantial amount of interest, dividend, and rental income is excluded from the taxable base of the income tax.

Further adjustments, both additions and subtractions, must be made to derive taxpayers' **adjusted gross income**, or AGI. Capital gains realizations—the increase in the value of assets between the time they are purchased and sold—are added to taxable personal income. Contributions from income made to tax-deductible individual retirement accounts and 401(k) plans are subtracted, but distributions to retirees from those plans are added. A variety of other, smaller adjustments must be made to reflect the various adjustments that taxpayers make.

Exemptions and deductions are subtracted from AGI to yield **taxable income**, to which progressive tax rates—rates that rise as income rises—are applied. (Those rates are known as statutory marginal tax rates; the range of taxable income over which a statutory marginal rate applies is known as an income tax bracket, of which there are now six.) The tax that results from applying statutory marginal rates to taxable income may then be subject to further adjustments in the form of **credits**, such as the child tax credit for taxpayers with children under age 17, which reduce taxpayers' **tax liability** (the amount they owe). An important factor in calculating individual tax liability is the **alternative minimum tax (AMT)**, which requires some taxpayers to calculate their taxes under a more limited set of exemptions, deductions, and credits. Taxpayers then pay the higher of the AMT or the regular tax. The ratio of tax liability to AGI is the **effective tax rate on AGI**.

Second, the timing of the cuts in individual income taxes enacted in JGTRRA caused a bunching of revenue losses in 2004. JGTRRA was enacted in May 2003, and its provisions were generally made effective as of January 1 of that year. Reduced withholding rates consistent with the new law went into effect shortly after enactment, but the

new rates applied only to income earned after the change. Taxpayers who earned income before the withholding rates were changed saw a reduction in their tax liabilities that was not matched by reductions in withholding (unless they acted on their own to reduce their withholding). It appears that relatively few taxpayers took such actions,

Box 4-1.**Continued****The Social Insurance Tax Base**

Social insurance taxes, the second largest source of receipts, use payroll as their base. Those taxes largely fund Social Security and the Hospital Insurance program (Part A of Medicare). Social Security taxes are imposed as a percentage of pay up to a **taxable maximum** that is indexed for the growth of wages in the economy. Hospital Insurance taxes are not subject to a taxable maximum.

The Corporate Income Tax Base

Corporate profits are the tax base of the corporate income tax. Profits are measured in different ways in the national income and product accounts. Several adjustments can be made to the reported profit measures to better approximate what is taxed by the corporate income tax.

First, different depreciation measures cause important differences in the measurement of corporate profits. **Economic profits** are measured on the basis of economic depreciation—the dollar value of productive capital assets that is estimated to have been used up in the production process. For tax purposes, however, corporations calculate **book profits**, which are based on **book, or tax, depreciation**. Book depreciation is typically more front-loaded than economic depreciation; that is, the capital is assumed to decline in value at a faster rate than the best estimates of how fast its value actually falls, allowing firms to report taxable profits that are smaller than economic profits.

Second, the profits of the Federal Reserve System are included in economic and book profits, but they are not taxed under the corporate income tax (they

are instead remitted to the Treasury as miscellaneous receipts).

Third, economic and book profits both include certain foreign-source income of U.S. multinational corporations. Foreign-source income is taxed at very low effective rates in part because it is generally taxable only when it is “repatriated,” or returned, to the U.S. parent company. In addition, it generates little revenue because corporations can offset their domestic tax by the amount of foreign taxes paid on that income, within limits.

Several other, smaller differences exist between book profits and corporations’ calculation of their taxable income for tax purposes. If a corporation’s taxable income is negative (that is, if the firm loses money), its loss (within limits) may be carried backward or forward to be netted against previous or future taxable income and thus reduce the firm’s taxes in those other years. If the loss is carried forward, it is called a “carryforward deduction.” A statutory tax rate is applied to the corporation’s taxable income to determine its tax liability. A number of credits (such as the credit for taxes imposed by other countries on the foreign-source income included in a firm’s taxable profits) may further pare that liability. The ratio of total domestic corporate taxes to total taxable corporate income is the **average tax rate**.

Despite many adjustments that must be made to calculate the actual tax bases, a ready approximation is the sum of wages and salaries, nonwage personal income, and corporate book profits. Those items pick up most of the bases of the individual income, corporate income, and social insurance taxes and therefore constitute the bulk of taxed income.

so when taxpayers filed their tax returns in the spring of 2004, refunds were boosted and final payments were smaller than would otherwise have been the case. That overwithholding effect was moderated by advance refunds of the increased child tax credit, which were distributed in the summer of 2003 (a phenomenon not re-

peated in 2004). Nonetheless, the net effect is believed to be relatively low receipts in 2004, causing this year’s growth to be higher than it otherwise would be.

CBO projects that profits of S corporations are growing substantially faster than taxable personal income as mea-

sured in the national income accounts. That growth, coupled with similarly more rapid growth in capital gains realizations by individuals and distributions from pensions and individual retirement accounts (IRAs), will boost receipts in 2005 by about \$15 billion, or almost 2 percentage points, relative to what receipts would be if those types of income grew at the same rate as taxable personal income. CBO projects that in tax year 2004, S corporation profits, capital gains realizations, and retirement distributions all increased in excess of 10 percent, boosting tax liabilities in that year and contributing to a strong increase in final payments that is expected when tax returns for that year are filed in 2005.

Projected growth in individual income tax receipts is reduced by about \$10 billion, or more than 1 percentage point, to reflect changes to the official accounting for individual income and social insurance receipts for 2004. When payroll tax receipts are remitted to the Treasury, they are not distinguished from income tax withholding. The Treasury estimates the appropriate division and corrects any resulting error in later years. In 2004, the Treasury lowered social insurance receipts in the official data by about \$10 billion and raised individual income taxes by the same amount to correct previous years' misestimates.² In producing its estimate for the level of receipts in 2005, CBO estimates actual receipts for 2004 before the Treasury makes its final determination. In CBO's history and forecast for social insurance receipts, the opposite effect occurs, so overall receipts are not affected.³

Projecting Receipts Beyond 2005. From 2006 through 2015, CBO's projected pattern of revenues reflects steady growth in personal income punctuated by changes in tax law scheduled to take place in specific years. Wage and salary income is expected to rise slightly faster than GDP through 2009, with its growth held down by an increased share of overall labor compensation expected to be paid in the form of health insurance benefits and contributions to pension plans. Taxable personal income is also

expected to grow slightly faster than GDP in each year through 2012. Receipts are expected to continue to rise faster than either GDP or taxable personal income in every year because of three major factors.

First, changes in tax law—principally those enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and JGTRRA—will alter the pattern of growth in receipts. As a result of legislation enacted in 2004, fewer provisions of tax law are now scheduled to change in the future than was the case under prior law. What remain of the scheduled changes are principally ones that cause taxes to increase. The alternative minimum tax (AMT) exemption is reduced in tax year 2006 from the value it has in tax years 2003 through 2005. That causes a significant jump in projected taxes in fiscal years 2006 and 2007. Tax rates on dividends and capital gains rise in 2009, returning to the rates that existed before 2003 and thus increasing receipts. And most important, taxes increase sharply in 2011 when various changes in law are scheduled to occur: statutory tax rates rise, the child tax credit amount declines, joint filers' tax brackets contract, and other changes take place. Only the phase-out of restrictions on itemized deductions and personal exemptions for high-income taxpayers during tax years 2006 to 2010 tends to reduce the growth of individual income tax receipts.

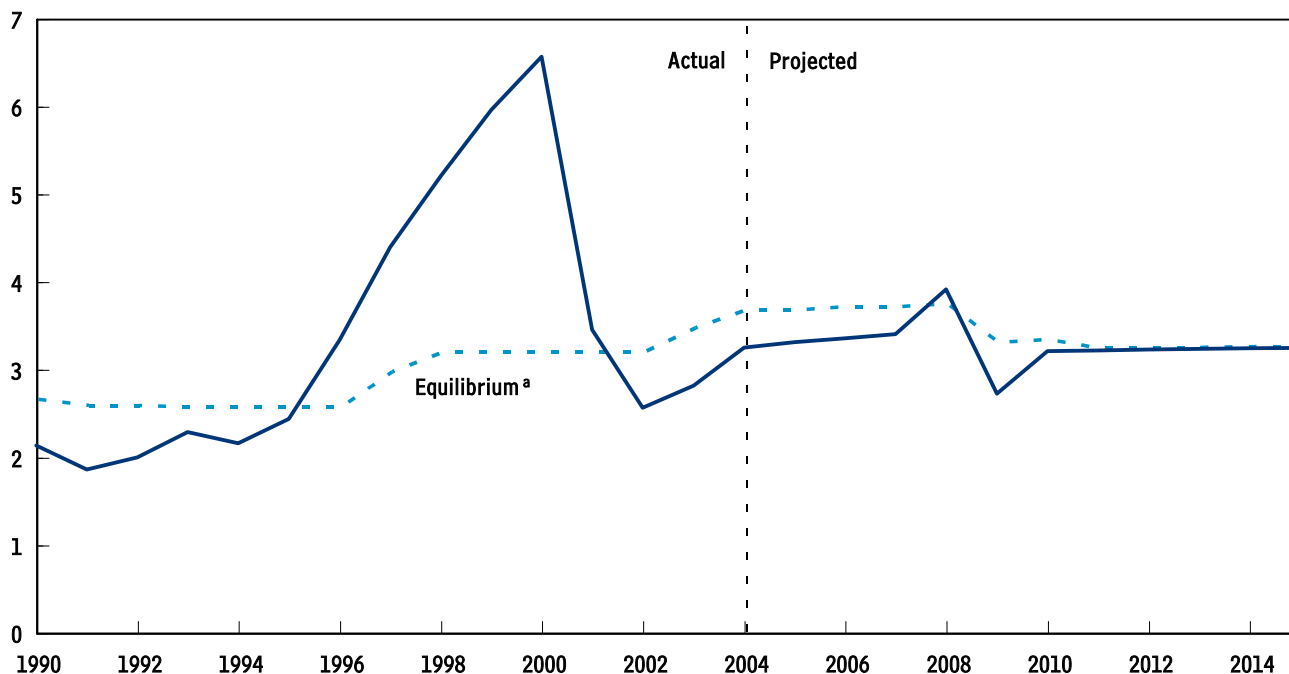
Second, over the 10-year period, several inherent characteristics of the tax system will boost effective tax rates, thereby increasing the receipts generated by the economy. The rise in the effective rate is generated in part by the phenomenon known as real bracket creep, in which the overall growth of real income causes more income to be taxed in higher tax brackets. In addition, the AMT—which is not indexed for inflation—will affect an increasing number of taxpayers and growing amounts of income in future years. (For a more detailed description of the increasing significance of the AMT in CBO's revenue projections, see Box 4-2 on page 86.) Also pushing up the effective rate are taxable distributions from tax-deferred retirement accounts, such as individual retirement accounts and 401(k) plans, which are expected to increase as the population ages. Contributions to those accounts were exempt from taxation when they were made, thus reducing taxable income in earlier years. Now, as more retirees take distributions from those accounts, the accu-

2. The Treasury Department uses that procedure rather than revising the official measures of receipts for the years before 2004 to which the misestimates applied.

3. CBO reports the official historical data in its tables, thus showing a reduced growth rate for receipts of individual income taxes and an increased growth rate for receipts of social insurance taxes in 2005. The growth rate of total receipts for 2005 is not affected.

Figure 4-4.**Capital Gains Realizations as a Share of GDP, Calendar Years 1990 to 2015**

(Percentage of GDP)



Source: Congressional Budget Office.

- a. The equilibrium relationship of capital gains realizations to GDP is measured as the average ratio of gains to GDP from 1954 to 2002, adjusted for differences between each year's tax rate on capital gains and the average rate over the period. A lower tax rate on capital gains corresponds to a higher equilibrium relationship.

mulations become taxable, thereby increasing tax receipts relative to GDP.⁴

Finally, CBO projects that realizations of capital gains will exert a positive effect on receipts relative to income (see Table 4-3). According to CBO's forecast for 2004, capital gains have not quite recovered to their average level relative to the size of the economy after their plunge between 2000 and 2002. CBO assumes that capital gains will tend to return to a level consistent with their historical relationship to GDP, as they have in the past. As a result, CBO's projection of gains grows moderately faster than GDP through 2007 as gains approach their average, or equilibrium (see Figure 4-4). Receipts grow in step with gains. The scheduled return to higher capital gains tax rates in 2009 is likely to encourage taxpayers to speed up the sale of assets with gains from that year to late 2008

and depress realizations thereafter. CBO projects that by 2012, realizations of capital gains will have roughly reached their equilibrium relative to output and then grow with output through 2015. Overall, the positive effect of capital gains on projected revenue growth over the next decade is modest—much less than their significant contributions to receipts in recent years.

Changes Since September 2004. Compared with the projections it made last September, CBO has reduced its projection of individual income tax receipts by \$24 billion for 2005 and by an additional \$160 billion for the 2006-2014 period. Legislative changes, mainly from enactment of the Working Families Tax Relief Act of 2004 (WFTRA), caused CBO to reduce its projection of revenues by \$126 billion over the full 10-year period, with \$103 billion of that amount occurring for 2005 through 2008. CBO reduced its projection of revenues by \$11 billion for 2005 through 2007 as a result of slightly lower projected growth in the near term in GDP and personal

4. See Congressional Budget Office, *Tax-Deferred Retirement Savings in Long-Term Revenue Projections* (May 2004).

Table 4-3.**Actual and Projected Capital Gains Realizations and Taxes**

	Capital Gains Realizations ^a		Capital Gains Tax Liabilities ^a		Capital Gains Tax Receipts ^b		Capital Gains Tax Receipts as a Percentage of Individual Income Tax Receipts
	In Billions of Dollars	Percentage Change from Previous Year	In Billions of Dollars	Percentage Change from Previous Year	In Billions of Dollars	Percentage Change from Previous Year	
1990	124	-20	28	-21	32	-14	6.8
1991	112	-10	25	-11	27	-17	5.7
1992	127	14	29	16	27	1	5.6
1993	152	20	36	25	32	20	6.3
1994	153	*	36	*	36	12	6.7
1995	180	18	44	22	40	10	6.8
1996	261	45	66	50	54	36	8.3
1997	365	40	79	19	72	33	9.8
1998	455	25	89	12	84	16	10.1
1999	553	22	112	26	99	19	11.3
2000	644	16	127	14	119	20	11.8
2001	349	-46	66	-48	100	-16	10.0
2002	269	-23	49	-26	58	-41	6.8
2003	310	15	47	-4	51	-13	6.4
2004	381	23	54	14	48	-7	5.9
2005	410	8	58	8	56	17	6.2
2006	438	7	63	8	60	8	6.1
2007	468	7	67	7	65	7	6.0
2008	567	21	81	20	69	6	5.9
2009	414	-27	74	-8	82	20	6.5
2010	511	24	95	28	84	2	6.1
2011	537	5	100	5	97	16	6.2
2012	562	5	104	5	102	5	5.9
2013	589	5	109	5	106	5	5.8
2014	617	5	114	5	111	5	5.8
2015	645	5	120	5	117	5	5.7

Source: Congressional Budget Office.

Notes: Capital gains realizations represent net positive long-term gains. Data for realizations and liabilities after 2000 and data for tax receipts in all years are estimated or projected by CBO. Data on realizations and liabilities before 2001 are estimated by the Treasury Department.

* = less than 0.5 percent.

a. Calendar year basis.

b. Fiscal year basis. This measure is CBO's estimate of when tax liabilities are paid to the Treasury.

Table 4-4.**CBO's Projections of Social Insurance Tax Receipts and the Social Insurance Tax Base**

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Social Insurance Tax Receipts														
In billions of dollars	733	790	833	876	918	962	1,009	1,054	1,102	1,151	1,202	1,253	4,598	10,360
As a percentage of GDP	6.3	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	n.a.	n.a.
Annual growth rate	2.9	7.7	5.5	5.1	4.8	4.8	4.8	4.5	4.6	4.4	4.4	4.2	n.a.	n.a.
Wages and Salaries														
In billions of dollars	5,279	5,584	5,900	6,225	6,562	6,898	7,233	7,570	7,912	8,265	8,629	9,002	32,818	74,197
As a percentage of GDP	45.7	45.7	45.8	45.8	45.9	45.9	45.9	45.9	45.9	45.9	45.8	45.8	n.a.	n.a.
Annual growth rate	4.5	5.8	5.6	5.5	5.4	5.1	4.9	4.7	4.5	4.5	4.4	4.3	n.a.	n.a.
Social Insurance Tax Receipts as a Percentage of Wages and Salaries	13.9	14.1	14.1	14.1	14.0	14.0	13.9	13.9	13.9	13.9	13.9	13.9	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax base in this table (wages and salaries) reflects income as measured by the national income and product accounts rather than as reported on tax returns.

n.a. = not applicable.

income, and increased its projection of receipts by \$119 billion for the 2008-2014 period as assumed faster GDP growth eventually pushes personal income above the amounts projected in September. In addition, CBO raised its projection of receipts by \$6 billion for 2005 and reduced its projection by \$171 billion for the 2006-2014 period as a result of technical factors that affect the revenue yield for a given economic projection of income, with \$159 billion of that reduction occurring after 2009.

The downward technical revisions in the second half of the projection period reflect new information from tax returns and new estimates of the effects of asset accumulations in IRAs and 401(k)s. Individual income tax returns filed for tax year 2002 indicate that personal income, especially wages and salaries and interest income, was lower than CBO had expected on the basis of growth in comparable measures from the national income and product accounts. CBO has incorporated a portion of that weakness into its long-term projection by reducing taxable income relative to comparable measures in the economic projection. In addition, CBO has reduced its projection of the share of overall interest and dividend income that is earned in taxable accounts.

Those lower estimates are considered to be more consistent with CBO's projection for earnings in tax-deferred

401(k) and IRA accounts, which are expected to accumulate rapidly over the projection period. Total revenue reductions from the new tax return data and new estimates of the effects of asset accumulation are partially offset through 2009 by reductions in the estimated loss in revenues from the reduced rates of taxation on dividends. Those reduced rates were enacted in JGTRRA and apply through December 31, 2008.

Social Insurance Taxes

In CBO's projections, revenues from social insurance taxes claim a roughly constant share of GDP, remaining between 6.4 percent and 6.5 percent of GDP from 2005 through 2015 (see Table 4-4). In relation to wages and salaries—the approximate base of those payroll taxes—revenues are projected to decline somewhat, from 14.1 percent in 2005 to 13.9 percent by 2015, as a result of relatively slower growth in receipts from unemployment taxes, declines in the share of earnings below the taxable maximum amount for Social Security, and declines in revenues for other federal retirement programs.

The largest components of payroll tax receipts are taxes for Social Security (called Old-Age, Survivors, and Disability Insurance, or OASDI) and Medicare's Hospital Insurance (HI). A small share of social insurance tax revenues comes from unemployment insurance taxes and

Box 4-2.**The Growing Significance of the Alternative Minimum Tax in CBO's Projections**

With each passing year, the alternative minimum tax (AMT) plays a larger role in the Congressional Budget Office's (CBO's) revenue projections. Revenue effects from recent changes in tax law combined with the growing number of taxpayers qualifying for the AMT have enhanced the AMT's contribution to overall revenue collection. Additional revenue from the AMT is one reason that CBO projects receipts to grow relative to gross domestic product (GDP) over the next 10 years.

Characteristics of the AMT

The AMT is a parallel income tax system with fewer exemptions, deductions, and rates than the regular income tax. The Congress enacted the AMT to prevent high-income taxpayers from taking advantage of the tax code by using the various preferences in the regular tax code that favor certain activities by taxing the income associated with them at a lower rate. Preferences not allowed under the AMT include personal exemptions and the standard deduction. Thus, the AMT reaches some taxpayers, not ordinarily thought to be exploiting "loopholes," who might otherwise avoid taxation of their high income. Taxpayers with potential AMT liability must calculate their taxes under both the AMT and the regular income tax and pay whichever figure is higher. The amount by which a taxpayer's AMT calculation exceeds his or her regular tax calculation is considered the taxpayer's AMT liability.

For example, in tax year 2006, a married taxpayer with three children who earned \$90,000 and reported a typical set of deductions would be required to calculate taxes under both the AMT and the regu-

lar income tax. In this case, the taxpayer's liability would be higher under the AMT.

The AMT's Growing Importance to Revenues

Because of the nominal income growth reflected by inflation and the effects of recent tax cuts, the AMT is growing in terms of both the number of qualifying taxpayers and the tax's share of total revenues.

As inflation boosts nominal income, more taxpayers are becoming subject to the minimum tax.¹ Like the rate structure of the regular income tax, the AMT extracts a greater proportion of overall income as real income rises. But unlike the regular income tax, the AMT is not indexed to inflation. So as incomes rise with inflation, a larger number of taxpayers find themselves subject to the AMT each year.

Laws enacted over the past four years—the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), as modified by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) and the Working Families Tax Relief Act of 2004 (WFTRA)—have cut taxpayer liability and will add to the number of qualifying AMT taxpayers. Although the tax cuts still reduce overall taxpayer liability, many people will find themselves pushed into the AMT system. By cutting tax rates under the regular tax, EGTRRA, JGTRRA, and WFTRA have reduced regular tax receipts and therefore enlarged the AMT's share and consequently its importance to total individual income tax revenues.

1. Real (inflation-adjusted) growth in income can also subject additional taxpayers to the AMT, but its effects are much smaller.

contributions to other federal retirement programs (see Table 4-5).

Social Security and Medicare taxes are calculated as a percentage of covered wages. Unlike the HI tax, which applies to all covered wages, the Social Security tax applies

only up to a taxable maximum, which is indexed to the growth of wages over time. Consequently, receipts from OASDI and HI taxes tend to remain fairly stable as a proportion of income as long as covered wages are a stable share of GDP and the distribution of income from wages remains relatively unchanged.

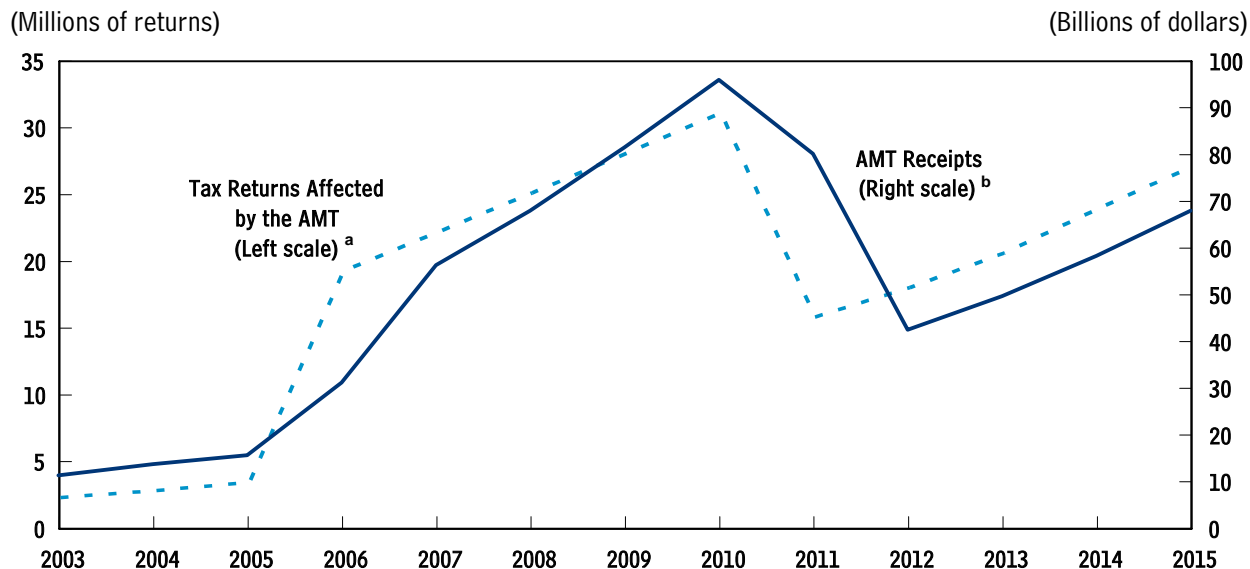
Box 4-2.**Continued****The AMT's Impact in the Next 10 Years**

By 2015, the number of AMT qualifiers is expected to reach 27 million, providing approximately \$68 billion in revenues (see the figure below). Compared with fiscal year 2004, AMT contributions to individual income tax receipts are expected to almost double by 2015, rising from 1.7 percent of those receipts to 3.3 percent.

During those years, AMT projections rise and fall largely because of the phasing in and out of changes in tax law enacted in EGTRRA, JGTRRA, and WFTRA. For example, WFTRA expands the amount of income exempted under the AMT through 2005. When that provision ends, the number of returns subject to the AMT is expected to rise, jumping from 4 million returns in 2005 to 19 million the following year. As a result, AMT revenues

are projected to increase from \$15 billion in fiscal year 2005 to \$31 billion in 2006.

In 2011, when statutory tax rates are scheduled to increase under the regular income tax and other law changes occur, the number of AMT returns is projected to decline, dropping from 31 million in 2010 to 16 million. Projected revenues from the AMT decline from \$96 billion in fiscal year 2010 to \$80 billion in 2011 and \$42 billion in 2012. Similarly, the AMT's share of total income tax revenues drops from 7.0 percent in 2010 to 5.1 percent in 2011 and 2.5 percent in 2012. After 2012, the dip in AMT receipts because of increases in regular taxes starts to reverse. As inflation pushes more taxpayers to qualify for the AMT, receipts begin climbing again, so that by the end of the 10-year span, AMT revenues are more than four times higher than revenues in fiscal year 2005.

CBO's Projected Effects of the Individual Alternative Minimum Tax

Source: Congressional Budget Office.

Note: The alternative minimum tax requires some taxpayers to calculate their taxes under a more limited set of exemptions, deductions, and credits than the set applicable under the regular individual income tax. Some taxpayers are affected by the AMT but do not have AMT liability because the AMT limits their credits taken under the regular tax.

a. Calendar year basis.

b. Fiscal year basis.

Table 4-5.**CBO's Projections of Social Insurance Tax Receipts, by Source**

(Billions of dollars)

	Actual												Total, 2006- 2010	Total, 2006- 2015
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Social Security	535	573	605	638	672	706	740	774	809	845	882	919	3,361	7,591
Medicare	151	164	174	183	193	203	214	224	234	245	256	267	967	2,192
Unemployment Insurance	39	44	47	47	45	45	47	49	52	54	57	60	232	504
Railroad Retirement	4	4	4	4	4	4	4	4	4	4	4	5	20	42
Other Retirement	5	4	4	4	4	4	3	3	3	3	3	2	19	32
Total	733	790	833	876	918	962	1,009	1,054	1,102	1,151	1,202	1,253	4,598	10,360

Source: Congressional Budget Office.

CBO projects that social insurance tax receipts will increase slightly relative to GDP in 2005. That increase primarily reflects changes in the accounting for individual income tax and social insurance receipts, as in the analysis of income tax receipts discussed above. In producing its estimate for the level of receipts in 2005, CBO estimates actual receipts for 2004 before the Treasury makes its final determination. In CBO's history and forecast for individual income tax receipts, the opposite effect occurs, so overall receipts are not affected. The increase in payroll tax receipts in 2005 is augmented by other factors, notably an anticipated increase in state unemployment taxes as states replenish their trust funds following the outflow of funds for unemployment benefits during the 2001 recession.

From 2005 onward, payroll tax receipts are expected to decline very gradually as a fraction of both wages and GDP for three reasons: states will largely finish replenishing their unemployment trust funds this year, revenues associated with other federal retirement programs will be lower as the number of workers covered by Railroad Retirement and the old Civil Service Retirement System declines, and a slightly larger fraction of total wage and salary income will be above the maximum level of earnings subject to Social Security taxes. Another factor offsets a portion of the decline: CBO expects that wages and salaries as a share of GDP will rise slightly from 2006 through 2010, boosting social insurance receipts relative to GDP.

Compared with its projections last September, CBO is now estimating about \$59 billion more in social insur-

ance tax receipts for the 2005-2014 period. Changes in CBO's economic forecast—mainly higher projections of nominal wages and salaries in the later years—account for \$60 billion of that change. Reestimates because of technical factors and recent legislation were very small.

Corporate Income Taxes

Receipts from corporate income taxes—like those from individual income taxes—rose relative to the size of the economy in the 1990s and then fell sharply between 2000 and 2002. Corporate receipts peaked at about 2.2 percent of GDP for the 1996-1998 period, earlier than the peak for individual income taxes, and then dipped just slightly by 2000 to 2.1 percent of GDP. The recession in 2001 reduced profits and revenues substantially, and business tax incentives enacted in the Job Creation and Worker Assistance Act of 2002 (JCWAA) reinforced the revenue decline. Corporate tax revenues as a share of GDP fell sharply—to 1.7 percent of GDP in 2001 and 1.2 percent in 2002 (adjusted to account for legislative shifts in the timing of collections). A second round of business tax cuts was enacted in 2003 in JGTRRA. But profits began rebounding strongly that year, so the net effect was a slight uptick in receipts as a share of GDP in 2003 (to 1.3 percent). In 2004, profits grew strongly and revenue rose to 1.6 percent of GDP. CBO projects that with the expiration of business tax incentives, corporate tax revenues will rise in the near term and peak at about 1.8 percent of GDP in 2005 and 2006, followed by a gradual decline to 1.5 percent of GDP in 2011 and thereafter (see Table 4-6).

Table 4-6.**CBO's Projections of Corporate Income Tax Receipts and Tax Bases**

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Corporate Income Tax Receipts														
In billions of dollars	189	216	226	226	237	246	249	254	261	270	281	292	1,184	2,542
As a percentage of GDP	1.6	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.5	n.a.	n.a.
Annual growth rate	43.7	14.0	4.9	-0.2	4.7	4.2	1.0	2.0	2.9	3.5	3.9	3.8	n.a.	n.a.
Corporate Book Profits														
In billions of dollars	970	1,257	1,247	1,223	1,264	1,311	1,342	1,378	1,426	1,483	1,549	1,614	6,387	13,837
As a percentage of GDP	8.4	10.3	9.7	9.0	8.8	8.7	8.5	8.4	8.3	8.2	8.2	8.2	n.a.	n.a.
Annual growth rate	15.9	29.6	-0.8	-1.9	3.3	3.8	2.4	2.7	3.5	4.0	4.5	4.2	n.a.	n.a.
Taxable Corporate Profits^a														
In billions of dollars	601	879	868	836	857	885	899	918	947	982	1,024	1,064	4,345	9,280
As a percentage of GDP	5.2	7.2	6.7	6.1	6.0	5.9	5.7	5.6	5.5	5.4	5.4	5.4	n.a.	n.a.
Annual growth rate	14.3	46.1	-1.2	-3.7	2.6	3.3	1.6	2.1	3.1	3.7	4.3	3.8	n.a.	n.a.
Corporate Receipts as a Percentage of Taxable Profits														
	31.5	24.6	26.1	27.0	27.6	27.8	27.7	27.7	27.6	27.5	27.4	27.4	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax bases in this table (corporate book profits and taxable corporate profits) reflect income as measured in the national income and product accounts rather than as reported on tax returns.

n.a. = not applicable.

a. Taxable corporate profits are defined as book profits minus profits earned by the Federal Reserve System, transnational corporations, and S corporations and minus deductible payments of state and local corporate taxes. They include capital gains realized by corporations.

The business tax cuts enacted in 2002 and 2003 have had a substantial effect on recent corporate tax liabilities and receipts. JCWAA allowed firms to expense (immediately deduct from taxable income) 30 percent of their investment in equipment made between September 11, 2001, and September 10, 2004. (See Box 4-3 for more details.) In addition, JCWAA allowed firms to use losses generated in 2001 and 2002 to obtain greater refunds of previous taxes paid. JGTRRA increased the partial-expensing allowance from 30 percent to 50 percent and allowed partial expensing to be extended slightly longer, until the end of calendar year 2004. Over the past three years, those changes in JCWAA and JGTRRA reduced taxable corporate profits and tax payments and increased corporate refunds, thereby reducing net corporate tax receipts.

CBO's projection of corporate tax receipts depends critically on its projection of book profits. The national in-

come and product accounts measure book profits (called "profits before tax") by assuming that depreciation deductions generally follow the rules prescribed in tax law. For that and other reasons, book profits are the measure in the national income and product accounts that most closely approximates the tax base for the corporate income tax (see Box 4-1 on page 80). CBO makes certain adjustments to book profits to generate a closer approximation to the tax base, called "taxable corporate profits."

Book profits will jump by 30 percent in 2005, CBO projects, and taxable corporate profits will surge by 46 percent, contributing to an increase in corporate receipts of 14 percent this year. That increase is predominantly a result of the expiration of the partial-expensing provision at the end of 2004. The immediate effect of accelerated depreciation is increased deductions and reduced pro-

Box 4-3.**Special Factors in the Projections for Corporate Profits and Receipts**

Two special factors, the expiration of the partial-expensing provision and substantial employer contributions to defined-benefit pension plans, cause significant fluctuations in the outlook for corporate profits and receipts over the next several years. Forecasts of profits are always subject to much uncertainty because profits vary widely during the business cycle. Because uncertainty also exists about those special factors, the Congressional Budget Office (CBO) considers the overall uncertainty surrounding the projections for corporate profits and receipts to be magnified.

Partial Expensing

Partial expensing is a method of capital-cost recovery that allows firms to deduct immediately from taxable income a portion of their investments in qualifying fixed assets. The Job Creation and Worker Assistance Act of 2002 instituted partial expensing for business equipment and software investment undertaken between September 11, 2001, and September 10, 2004. It allowed an additional first-year deduction against income of 30 percent of the value of the asset, with normal depreciation rules applying to the remaining 70 percent—a part of which would also be depreciated in the first year. The Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the additional first-year deduction to 50 percent and ex-

tended the expiration date to investments undertaken by December 31, 2004. Normal depreciation rules are typically those prescribed by the Modified Accelerated Cost Recovery System established in 1986, which provide accelerated depreciation (generally twice the straight-line rate) over an assumed asset lifetime that is generally shorter than the true lifetime. Full expensing would allow all of the asset's value to be depreciated in the first year and none thereafter; hence, the term "partial expensing" applies to the provision that was enacted.

Although the partial-expensing provision is referred to as "bonus depreciation" in the tax code, it is not a "bonus" in the usual sense of the term. The provision allows depreciation deductions to be taken earlier than otherwise, but the same amount of depreciation deductions—generally the purchase price of the asset—is allowed over the lifetime of the asset. Nonetheless, up-front deductions are more valuable than later deductions because they result in an immediate reduction in taxes and corresponding increase in after-tax profits, which can be invested and over time earn a return. As a result, most firms with qualifying assets would elect to partially expense them.

The combination of the front-loading of deductions and the expiration of the provision causes expected

fits—with the reverse effect in later years. Combined with the sharp increase in depreciation deductions in 2004, the swing in depreciation deductions from the partial-expensing provision accounts for almost three-quarters of the projected \$287 billion growth in book profits in 2005.

CBO expects that corporate receipts in 2005 will climb more slowly than profits, thereby pushing down corporate receipts as a percentage of taxable profits. The slower growth in receipts occurs partly because tax payments typically lag slightly behind the earning of profits. In addition, greater deductions for net-operating-loss carryforwards—by firms that had negative profits (losses)

in recent years—are expected to slow the growth in the corporate tax base and receipts relative to taxable profits. The decline in corporate receipts as a percentage of taxable profits also reflects provisions of the American Jobs Creation Act of 2004 (AJCA) and WFTRA that are expected to reduce corporate receipts in 2005. AJCA repealed the exclusion for a portion of income earned by exporters (so-called extraterritorial income), allowed a deduction for income attributable to production in the United States, and altered numerous other tax provisions for both domestic and foreign corporations. Finally, corporate receipts in 2004 were higher than indicated by CBO's estimates and the most recent information on

Box 4-3.**Continued**

depreciation deductions to plummet in calendar year 2005, boosting corporate profits and receipts.¹ First, for partially expensed assets, fewer deductions will typically be available in 2005. In addition, starting in 2005, firms will no longer be able to use the partial-expensing provision and must revert to using the normal rules. Because most equipment investment is depreciated over a five- or seven-year lifetime, the net effect of the provision is that it takes seven years before depreciation deductions roughly return to the level that would have existed without enactment of partial expensing. In the intervening years, depreciation deductions will be lower—and profits correspondingly higher—than they would have been if partial expensing had not been instituted, with the amount diminishing over time starting in 2007.

Because it has already expired and is not a provision that has ever been extended retroactively, partial expensing is not included in CBO's list of expiring tax provisions (see Tables 1-3 and 4-10).

1. Individual income and tax receipts are also affected because the partial-expensing provision may be used by partnerships, sole proprietorships, and S corporations, all of which are taxed under the individual income tax.

Employers' Contributions to Defined-Benefit Plans

Largely as a result of the stock market decline that began in 2000 and the recession of 2001, many pension plans that pay a defined benefit have become underfunded. CBO expects that employers will need to make significant contributions to such plans in coming years. Because the contributions that employers make to their defined-benefit plans are a deductible business expense when computing profits, those contributions will be a drag on profit growth.

The Job Creation and Worker Assistance Act allowed firms to reduce their required payments to defined-benefit plans through 2003, and the Pension Funding Equity Act of 2004 generally extended that relief through 2005 (see Appendix D for a more complete discussion). CBO's baseline is required to assume that no further law changes are enacted; therefore, CBO assumes that in 2006, firms will be required to make very large contributions to their plans, which will depress profits. After 2006, contributions are expected to retreat to more normal levels as many firms eliminate their pension-funding shortfalls. Although CBO expects that factor to reduce profit growth substantially in 2006, the reduction is offset in part that year by an increase in profit growth from the partial-expensing provision.

profits, and in CBO's projection, that unexplained strength phases out quickly.

Beyond 2005, CBO's projection for receipts closely follows its profits forecast, which is heavily influenced by assumptions about depreciation deductions and contributions to underfunded pension plans. CBO projects that book and taxable profits will both fall slightly in 2006 and 2007 and then average more than 3 percent growth annually through 2015. Profits are expected to decline as a share of GDP after 2005. In 2006, CBO expects a large increase in employers' contributions to underfunded defined-benefit plans, which will reduce profits (see Appendix D). In the longer term, CBO projects that

strong recovery in business fixed investment will increase depreciation deductions and reduce corporate profits relative to GDP during the projection period. Expiration of partial expensing also will contribute to the decline in profits relative to GDP after 2006 by decreasing depreciation deductions and thereby boosting profits—mostly in 2006 and by shrinking amounts thereafter.

CBO projects that corporate receipts will climb in 2006, despite a decline in profits, because of the delayed effect of the partial-expensing expiration. CBO expects receipts to be roughly stable in 2007 and to grow by an average 3.2 percent annually through 2015. Corporate tax

Table 4-7.**CBO's Projections of Excise Tax Receipts, by Category**

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Highway Taxes	35	37	39	40	42	43	44	47	48	49	51	52	207	454
Airport Taxes	10	11	11	12	13	13	14	15	15	16	17	18	63	143
Telephone Taxes	6	6	6	6	7	7	7	7	7	7	7	7	32	68
Alcohol Taxes	8	8	9	9	9	9	9	9	9	10	10	10	45	93
Tobacco Taxes	8	9	9	9	9	9	9	9	9	9	9	9	45	91
Other Excise Taxes	2	2	3	2	2	2	3	3	3	3	3	3	12	25
Total	70	74	77	79	81	83	85	89	92	94	96	98	405	874

Source: Congressional Budget Office.

receipts are projected to peak at 1.8 percent of GDP in 2005 and 2006 and then decline to about 1.5 percent of GDP by 2015.

The new outlook for corporate receipts is smaller by about \$124 billion over the 2005-2014 period than CBO's projection from September 2004. About \$100 billion of the decrease reflects changes in the economic projection. CBO has lowered its projection for profits, especially in the first half of the projection period. Legislative changes account for an additional \$30 billion drop in the estimate for corporate receipts. About two-thirds of that comes from enactment of AJCA. The rest comes from enactment of WFTRA, mainly through extending the research and experimentation tax credit through 2005. Minimal technical reestimates raised receipts by \$5 billion.

Excise Taxes

Receipts from excise taxes are expected to continue their long-term decline as a share of GDP, falling from 0.6 percent in 2004 to 0.5 percent toward the end of the 10-year projection period. Most excise taxes—those generating about 80 percent of total excise revenues—are levied per unit of good or per transaction rather than as a percentage of value. Thus, excise receipts grow with real GDP, but they do not rise with inflation and therefore do not grow as fast as nominal GDP does.

Nearly all excise taxes fall into five major categories: highway, airport, telephone, alcohol, and tobacco taxes (see Table 4-7). Almost half of all excise receipts are earmarked by law to the Highway Trust Fund; they come

primarily from taxes on gasoline and diesel fuel. Most airport taxes are levied on a percentage basis, so they grow at a faster rate than the other categories do. Tobacco and alcohol taxes are expected to remain roughly stable in nominal terms through 2015.

CBO's current projection of total excise tax receipts for the next 10 years is about \$25 billion higher than the projection it published in September. Changes in CBO's economic forecast have increased projected receipts by \$5 billion over the 2005-2014 period, but technical adjustments to the baseline have decreased them by \$8 billion. The technical decreases reflect lower recent receipts from gasoline taxes as well as the growing share of lower-taxed ethanol blends in motor-fuel consumption.

The most significant change in CBO's projection of excise tax receipts over the 2005-2014 period comes from enactment of AJCA, which has increased that projection by \$27 billion. About \$10 billion of the increase results from new assessments on manufacturers of tobacco products—effectively raising taxes on such products—to fund an equal amount of direct payments to domestic tobacco growers and owners of the rights to produce and market specific amounts of tobacco. About \$8 billion of the added revenue comes from the scheduled elimination of the tax subsidy associated with ethanol-blended fuels after calendar year 2010. The subsidy had been scheduled to expire under prior law, but in previous baselines CBO had assumed that the subsidy would be extended under baseline rules governing expiring excise taxes dedicated to trust funds. Now that AJCA provides for the subsidy to be paid out of the general fund, baseline rules require

CBO to assume that the subsidy will expire as scheduled. The remaining increase in projected excise tax receipts, about \$9 billion from 2005 to 2014, comes from compliance initiatives in AJCA. Most of those initiatives are associated with provisions intended to reduce evasion of fuel taxes, such as modifying the point of taxation for aviation fuel, altering the tax rates on heavy vehicles, and imposing fines on unregistered transporters of taxable fuels.

AJCA also affected trust fund revenues in ways that do not affect overall excise tax receipts. As a result of the law, revenues dedicated to the Highway Trust Fund will be higher by an estimated \$31.5 billion over the 2005-2014 period, and general fund revenues will be correspondingly lower. That change stems mostly from provisions in AJCA that require trust fund accounting to apply all tax credits on ethanol-blended fuels (which reduce revenue) to the general fund rather than to the Highway Trust Fund.

Estate and Gift Taxes

Under current law, receipts from estate and gift taxes change in importance over the first half of CBO's 10-year projection period: their share of GDP is forecast to decline from 0.2 percent in 2004 to 0.1 percent in 2010 and 2011 before jumping back to 0.2 percent of GDP in 2012 and 0.3 percent of GDP thereafter through 2015. That pattern results from the phaseout of the estate tax through 2010 under EGTRRA and the subsequent reinstatement of the tax in 2011.

In the past, revenues from estate and gift taxes tended to grow more rapidly than income because the unified credit for the two taxes, which effectively exempts some assets from taxation, is not indexed for inflation. Under EGTRRA, however, the pattern of receipts over time has changed dramatically. The estate tax is gradually being eliminated, and the gift tax remains in the tax code but in a modified form. Today, tax law effectively exempts \$1.5 million of an estate from taxation. EGTRRA will raise that amount in two steps, to \$2.0 million in 2006 and \$3.5 million in 2009. EGTRRA will also reduce the highest tax rate on estates in steps from 50 percent in 2002 to 45 percent in 2007 and then eliminate the tax in 2010. The law is currently set to reinstate the estate tax in 2011. Because estate tax liabilities are paid after a lag, and because the gift tax remains in the tax code, receipts from estate and gift taxes do not disappear completely in CBO's projection period but instead reach a trough in

2010 and 2011 (see Table 4-8). CBO estimates that after 2011, those receipts will return to roughly their 2002 share of GDP.

Since September, CBO has raised its projections of estate and gift receipts over the 2005-2014 period by \$14 billion. About half of that increase results from changes in CBO's economic forecast and about half from technical reestimates. The technical reestimates stem largely from the stronger-than-expected stock market in the second half of calendar year 2004, which boosts the size of taxable estates and generates increased tax receipts. For 2011 alone, CBO has reduced its projection of taxable gifts slightly as a result of reestimating the amount of gifts that are shifted from other years into 2010, just before expiration of both the reduced rate of gift taxation and repeal of the estate tax.

Other Sources of Revenue

Customs duties and numerous miscellaneous sources bring in much smaller amounts of revenue than the major levies do. CBO estimates that those revenues will remain fairly steady as a share of GDP—at just about 0.5 percent—throughout the projection period. That share will be slightly lower in 2005 and 2006, however, because of the effect of low short-term interest rates on the Federal Reserve System's earnings.

CBO projects that customs duties will grow over time in tandem with imports. During the next few years, however, their growth will be curbed as several tariff reductions, which began with enactment of the North American Free Trade Agreement in 1994, continue to phase in. Some slight decline in customs receipts relative to GDP occurs because petroleum, an important component of overall imports, is assessed a specific duty that does not rise with price. Projections of customs duties over the next 10 years are about \$7 billion lower now than in the September projections. Most of that change affects the 2010-2014 period and reflects lower expectations of imports over that period than CBO projected in September.

Profits of the Federal Reserve System—the largest component of miscellaneous receipts—are counted as revenues once they are turned over to the Treasury (see Table 4-8). Those profits depend on the interest that the Federal Reserve earns on its portfolio of securities and on gains and losses from its holdings of foreign currency. In the past four years, earnings on securities declined as

Table 4-8.**CBO's Projections of Other Sources of Revenue**

(Billions of dollars)

	Actual												Total, 2006- 2010	Total, 2006- 2015
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Estate and Gift Taxes	25	24	27	25	26	27	21	19	43	46	52	58	126	344
Customs Duties	21	21	23	25	27	28	29	30	31	33	35	37	133	299
Miscellaneous Receipts														
Federal Reserve System earnings	20	21	26	30	34	37	39	41	43	45	47	49	165	388
Universal Service Fund	7	7	7	7	7	8	8	8	8	8	8	8	37	78
Other	6	6	7	6	5	5	5	5	5	5	5	5	29	55
Subtotal	33	34	39	44	47	50	52	54	56	58	60	62	231	521
Total	79	79	90	94	100	105	102	103	130	137	147	157	490	1,164

Source: Congressional Budget Office.

the Federal Reserve lowered interest rates to stimulate economic growth and counter the economy's downturn. The recession and slow recovery curbed the growth of the Federal Reserve's portfolio of assets because of slower growth in the public's holdings of U.S. currency. CBO expects that, on average, short- and long-term interest rates will rise through 2007, increasing receipts from the Federal Reserve System to a level that is more consistent with the relationship to GDP that existed in the 1990s.

Since September, CBO has made little change to its projection of receipts from the Federal Reserve. CBO has made technical changes to projections of other miscellaneous receipts—mainly for receipts that finance the Universal Service Fund—that raise revenues by about \$8 billion over the 2005-2014 period.

Uncertainty in the Revenue Baseline

The projection of revenues in the baseline represents the most likely path of receipts under current law. Nonetheless, even if policies remain unchanged, much uncertainty exists in the projections of economic circumstances that underlie the revenue projection. Thus, misestimates are inherent in forecasting.

The factors most likely to generate misestimates of revenues in the projection can be identified by examining past revisions to CBO's revenue projections. Those revisions

are typically categorized into changes caused by legislation, economics, or technical factors.

All nonlegislative factors that affect revenues are ultimately economic in nature. The economic and technical categories used to identify the sources of baseline revisions distinguish revisions that result from changes in CBO's macroeconomic forecast from those linked to other causes. Economic revisions are changes stemming from new projections of variables typically generated as part of a standard macroeconomic forecast. Technical revisions are those that affect how much revenue is generated by a given macroeconomic forecast. Capital gains realizations and retirement distributions are examples of items that are important for determining tax liability but that are not part of a macroeconomic projection.

Although past revisions have been based on a number of different sources, a few major factors have tended to have more influence than others. Among factors usually designated as economic, the most significant is the level of wages and salaries in the economy. Of those that are technical, capital gains and changes in the growth of income among the nation's highest earners stand out. Two other technical factors also merit mention: the behavior of contributions and distributions associated with tax-deferred retirement savings and unexplained deviations in current collections of receipts. In general, revisions to the projection for the near term have tended to be technical, while those for the longer term have tended to be economic.

Among economic factors, projections of wage and salary income have the greatest potential to generate misestimates in the revenue projection because such income is, on average, taxed at a higher rate than other income sources. Further, because wages and salaries are such a large component of income, even small errors can produce relatively large effects. (See Appendix A for a discussion of the sensitivity of receipts to wages and salaries and other selected macroeconomic variables.)

Among technical factors, realizations of capital gains are among the most difficult to predict of all of the items that go into the revenue forecast. Estimates of capital gains realizations are subject to large errors even when the forecaster has access to most of the information on GDP, the stock market, tax rates, and other variables—and that difficulty is compounded in looking beyond the current year, when those variables are not known. As a consequence, swings in realizations have produced errors in the forecast. Over the next few years, however, gains are a smaller risk factor for the projection because of the lower tax rate imposed on them.

Another difficult-to-predict determinant of tax receipts is growth of income among the most highly taxed households relative to income growth among all households. A substantial proportion of income tax receipts is generated by a small percentage of earners because of the tax system's progressivity and the skewed distribution of income. Even if total wage and salary income is accurately projected, a shift in its distribution among households will alter the average rate at which it is taxed. If very high income earners experience income growth significantly faster or slower than that of all households, the tax yielded by a given level of overall income will be higher or lower. That phenomenon is unlikely to generate very large errors in any one year. However, if the differential growth of income persists, errors can accumulate.

Although not a significant source of revision in the past, projections of distributions from tax-deferred retirement accounts offer another potential source of error, largely because of their growing importance in the projection. The baby-boom generation has accumulated large amounts in tax-deferred retirement accounts and will soon begin to take larger distributions from them. In addition, because of the total size of tax-deferred retirement accounts, significant amounts of interest and dividend income are exempt from taxation. Errors in projecting con-

tributions, distributions, or account earnings may all affect the accuracy of the projection.

Finally, determining the sources of current collections is difficult. Detailed information about sources of tax liability are only available about two years after receipts come into the Treasury. Consequently, forecasters know how much is coming in as withholding, estimated taxes, and so forth, but they cannot know until much later which activities generated the liability giving rise to those receipts. Thus, at any given time, current receipts will exceed or fall short of what the projection models say they will be. Even after those differentials are attributed to their most likely sources, some residual remains, and a determination must be made about whether that amount will continue into the future and how far.

Revisions to CBO's September 2004 Revenue Projections

In September, CBO projected that receipts would total \$28.3 trillion over the 2005-2014 period (see Table 4-9). The current projection for that period is nearly unchanged: \$28.1 trillion, less than 1 percent (\$209 billion) lower. Legislative changes since September accounted for \$129 billion of that reduction. Virtually all of the changes in the 10-year total resulting from legislation were from the Working Families Tax Relief Act, which extended several provisions of EGTRRA and JGTRRA, extended a number of other expired or expiring tax provisions, and made other changes to the tax code. The American Jobs Creation Act, which replaced an extraterritorial income exclusion with a deduction for income from domestic production and made numerous other tax-law changes, reduced receipts modestly in the first five years of the projection and raised them slightly less in the second five years. Small reductions in projected receipts resulted from the Miscellaneous Trade and Technical Corrections Act, which made minor changes to U.S. trade law, and from the Thrift Savings Plan Open Elections Act of 2004, which affected the frequency with which federal employees could make contributions to their tax-deferred retirement accounts. In addition, a series of continuing resolutions (Public Laws 108-309, -416, and -434) extended mine reclamation fees for brief periods last autumn, and the Consolidated Appropriations Act, 2005 (P.L. 108-447) extended those fees

Table 4-9.**Changes in CBO's Projections of Revenues Since September 2004**

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2014
Revenues in CBO's September 2004 Baseline	2,094	2,279	2,406	2,531	2,673	2,821	3,077	3,308	3,471	3,648	28,308
Legislative Changes	-32	-46	-25	-14	-6	-6	*	1	*	-1	-129
Other Changes											
Economic	-14	-25	-23	-9	3	14	18	28	37	43	72
Technical	9	4	-2	-1	-8	-22	-33	-33	-34	-33	-152
Subtotal	-5	-21	-24	-10	-5	-8	-14	-5	3	10	-80
Total Changes	-37	-67	-49	-23	-11	-15	-15	-5	3	10	-209
Revenues in CBO's January 2005 Baseline	2,057	2,212	2,357	2,508	2,662	2,806	3,062	3,303	3,474	3,657	28,099

Source: Congressional Budget Office.

Note: * = between -\$500 million and zero.

through June 2005 as well as fees on satellite companies for use of copyrighted programming through 2010.⁵

The effects of legislative revisions to the baseline are concentrated in the first five years. Most of the tax reductions in WFTRA extend only through 2010; consequently, the law does little to reduce taxes after that date. In addition, AJCA is structured to generate revenue losses in the first five years that are largely offset by gains in the second. As a result, about 95 percent of the revenue loss from all recent legislation occurs in the 2005-2009 period.

The remaining \$80 billion decrease in projected revenues since September is the result of technical revisions that reduce receipts by \$152 billion partly offset by economic revisions that increase them by \$72 billion. The positive economic effects on revenues are concentrated in the later years of the projection period and stem principally from higher projections of economic growth after 2005. How-

ever, in the first four years of the projection period, the effect of economic revisions is to reduce the forecast of revenues, mainly because taxable income is projected to represent a smaller share of GDP than was expected in September. Technical changes are also largely concentrated in the later years of the projection period. They mainly reflect new information from tax returns and new estimates of the effects of rapid accumulations in IRAs and 401(k)s.

The Effects of Expiring Tax Provisions

CBO's revenue projections rest on the assumption that current tax laws remain unaltered except for scheduled changes and expirations, which occur on time. The sole exception to that approach is the expiration of excise taxes dedicated to trust funds, which, under budget rules, are included in the revenue projections whether or not they are scheduled to expire.

The assumption that tax provisions expire as scheduled can have a significant impact on CBO's estimates. Many expiring provisions are extended almost as a matter of course, and most of them reduce receipts. Thus, revenue projections that assumed the extension of those provisions would be lower than revenue estimates projected under current law. To provide as complete an outlook for

5. One law with relatively small revenue effects was enacted after CBO had prepared its estimates and is therefore not included. Public Law 109-1 allows certain taxpayers to deduct charitable contributions to tsunami relief from their 2004 taxable income. The tax would reduce receipts by \$11 million in 2005 and increase them by \$9 million in 2006, according to estimates by the Joint Committee on Taxation.

revenues as possible, this section details the various tax provisions whose expiration is reflected in CBO's baseline and the revenue effects of extending them.

The estimates of revenue associated with the extensions cited in this section do not include any effects of the provisions on the macroeconomy. In many instances, macroeconomic feedbacks would be too small to have a substantial effect on the estimates. Among the expirations, however, are the EGTRRA, JGTRRA, and WFTRA rate cuts that influence labor supply and growth in CBO's baseline economic projection. Hence, the full "dynamic" revenue effect of extending some of these provisions would differ from the estimates presented in this section.

Provisions That Expire During the Projection Period

A number of provisions are scheduled to expire between 2005 and 2015 (see Table 4-10). The most significant of those from a budgetary perspective are tax provisions enacted in EGTRRA, as modified by JGTRRA and WFTRA. First, the higher amount of income exempt from the individual AMT is set to expire at the end of 2005, along with the deduction allowed for qualified education expenses. The credit allowed for certain contributions to IRA and 401(k) plans expires at the end of 2006, and the higher amount of expensing of investment allowed for small businesses expires after 2007. The lower tax rates on dividends and capital gains enacted in JGTRRA expire at the end of 2008. The rest of the provisions from those laws—which represent the bulk of the budgetary effect—expire on December 31, 2010. Those provisions include decreases in marginal tax rates for individuals, increases in the child tax credit, and repeal of the estate tax.

Assuming that the expiring provisions enacted in EGTRRA, JGTRRA, and WFTRA were extended, CBO and the Joint Committee on Taxation (JCT) estimate that revenues would be about \$1.66 trillion lower through 2015. About six-sevenths of that reduction would occur from 2011 through 2015. However, extending the changes to estate and gift taxes, which expire at the end of 2010, could reduce revenues as early as 2006 because some taxpayers might postpone taxable gifts that they would otherwise have made during this decade if they knew that the repeal of the estate tax would become permanent in 2011.

CBO's and JCT's estimates of the effects of extending expiring provisions incorporate the assumption that the higher exemption levels for the AMT, which expire after 2005, are extended at their 2005 levels. Under that assumption, the exemption levels would not rise with inflation, so a growing number of taxpayers would still become subject to the AMT over time—albeit fewer than if the higher exemption levels expired as now scheduled.

Fifty-three provisions not initially enacted in EGTRRA, JGTRRA, or WFTRA are due to end between 2005 and 2015; of those, 47 would reduce revenues if extended. The provision with the largest effect is the research and experimentation tax credit, which was enacted in 1981. WFTRA extended that provision for the 10th time, through the end of 2005. Continuing the credit through 2015 would reduce revenues by about \$73 billion. The provision that allows individuals to claim nonrefundable personal credits against the AMT, first enacted in 1998, expires after 2005. Extending that provision would reduce revenues by about \$50 billion through 2015, according to JCT. The reduced tax rate on repatriated dividends, enacted in AJCA in 2004, expires in 2006, and JCT estimates that extending it would reduce revenues by \$47 billion over the next 10 years. Extending the exemption for certain active financing income from the Subpart F rules of the tax law, which expires at the end of 2006, would reduce revenues by \$38 billion through 2015. Extending the deduction allowed for state and local general sales taxes, also enacted in AJCA in 2004 and set to expire at the end of 2005, would reduce revenues by \$26 billion through 2015. In all, extending those 47 revenue-reducing provisions would decrease receipts by \$322 billion from 2006 through 2015.

In the opposite direction, six provisions that are set to expire over the next decade would increase revenues if they were extended. The provision with the largest effect is the Federal Unemployment Tax Act surcharge, which would boost revenues by about \$11 billion between 2008 and 2015 if extended. The other provisions include assessing fees for the reclamation of abandoned mines; allowing the Internal Revenue Service (IRS) to impose fees on businesses for providing ruling, opinion, and determination letters; allowing employers to transfer excess assets in defined-benefit pension plans to a special account for retirees' health benefits; providing authority to the IRS for certain undercover operations; and allowing defined-benefit plans with multiple employers to defer a portion of charges for net experience losses. Extending the mine

reclamation fees would raise about \$200 million per year. The other four provisions, if extended, would raise about \$100 million altogether through 2015.

Expiring Provisions That Are Included in CBO's Baseline

Budget rules enacted in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, require CBO to include in its projections excise tax receipts earmarked for trust funds, even if those taxes are scheduled to expire. The largest such taxes that are slated to expire during the next 10 years finance the Highway Trust Fund. Some of the taxes for that fund are permanent, but most of them end on September 30, 2005. Extending those taxes at today's rates contributes about \$42 billion to CBO's revenue projections in 2015, or about 43 percent of that year's total excise tax receipts.

Other expiring trust fund taxes, if extended, would account for smaller amounts in 2015, CBO estimates. Taxes dedicated to the Airport and Airway Trust Fund, which are scheduled to expire at the end of September 2007, would contribute about \$15 billion to revenues in 2015. Taxes for the Leaking Underground Storage Tank Trust Fund, set to end on March 31, 2005, are assumed

to continue in CBO's baseline, contributing about \$300 million to revenues in 2015. In addition, the new assessment on tobacco manufacturers enacted under AJCA expires on September 30, 2014. Because the receipts are dedicated to the Tobacco Trust Fund, baseline rules require CBO to assume that the assessment is extended, adding \$1 billion in revenues to the last year of the projection. No other expiring tax provisions are automatically extended in CBO's baseline.

Total Effect of Expiring Provisions

If all of the tax provisions scheduled to expire were extended together, the revenue projection for 2006 would be about \$16 billion lower. That revenue loss would grow to \$45 billion in 2007 and \$95 billion in 2010, before jumping to nearly \$250 billion in 2011 and then reaching \$422 billion in 2015. Over the entire 2006-2015 period, revenues would be reduced by about \$2.1 trillion. That estimate includes interactions among the provisions. In particular, two AMT provisions—increasing the exemption amount for that tax and allowing certain personal credits to reduce AMT liability—interact with each other and with provisions that affect individual income tax rates.

Table 4-10.**Effect of Extending Tax Provisions That Will Expire Before 2015**

(Billions of dollars)

Tax Provision	Expiration Date												Total, 2006- 2010	Total, 2006- 2015	
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015			
Provisions That Expire in 2005															
Abandoned Mine Reclamation Fees	06/30/05	**	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.9	1.9	
Defer Losses of Certain Pension Plans	06/30/05	0	**	**	**	*	*	*	*	*	*	*	**	**	
Reduced Pension Contributions of Certain Industries	12/27/05	n.a.	**	**	**	**	*	*	*	*	*	*	0.1	-0.1	
Archer Medical Savings Accounts	12/31/05	n.a.	*	*	*	*	*	*	*	*	*	*	*	*	
Authority for Undercover IRS Operations	12/31/05	n.a.	**	**	**	**	**	**	**	**	**	**	**	**	
Brownfields Remediation Expensing	12/31/05	**	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.2	
Combat Pay in Earned Income for Refundable Credits	12/31/05	n.a.	*	*	*	*	*	*	*	*	*	*	*	-0.1	
Corporate Contributions of Computers to Schools	12/31/05	n.a.	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-1.7	
Credit for Electric Vehicles	12/31/05	n.a.	*	*	*	*	*	*	*	*	*	*	*	*	
Credit for Electricity Production from Renewable Sources	12/31/05	n.a.	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6	-0.7	-0.8	-0.8	-2.1	-5.6	
Credit for Research and Experimentation	12/31/05	n.a.	-2.2	-4.4	-5.7	-6.9	-7.8	-8.3	-8.8	-9.3	-9.7	-10.2	-27.0	-73.4	
Deduction for Qualified Education Expenses	12/31/05	n.a.	-0.7	-2.3	-2.4	-2.5	-2.5	-2.6	-2.7	-2.8	-2.9	-3.0	-10.4	-24.5	
Deduction for Teachers' Classroom Expenses	12/31/05	n.a.	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.9	-2.2	
Deduction of State and Local Sales Taxes	12/31/05	n.a.	-0.5	-2.0	-2.0	-2.0	-2.0	-2.4	-3.7	-3.8	-3.9	-3.9	-8.6	-26.3	
Deductions for Clean-Fuel Vehicles and Refueling Property	12/31/05	n.a.	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.8	-1.7	
Depreciation for Business Property on Indian Reservations	12/31/05	n.a.	-0.2	-0.4	-0.6	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-2.2	-3.8	
Depreciation of Leasehold and Restaurant Improvements	12/31/05	n.a.	-0.1	-0.3	-0.5	-0.8	-1.1	-1.5	-1.8	-2.1	-2.5	-2.8	-2.9	-13.5	
Increased AMT Exemption Amount	12/31/05	n.a.	-11.8	-31.7	-37.4	-43.7	-50.2	-41.0	-23.1	-27.2	-32.1	-37.2	-174.8	-335.4	
Indian Employment Tax Credit	12/31/05	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.6	
Interest Rate for Pension Calculations	12/31/05	n.a.	1.9	2.4	0.9	0.5	-0.2	-1.1	-1.5	-2.0	-2.4	-2.4	5.6	-3.8	
Net Income Limitation for Marginal Oil and Gas Wells	12/31/05	n.a.	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.5	
Parity in Mental Health Benefits	12/31/05	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.7	
Qualified Zone Academy Bonds	12/31/05	n.a.	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	
Rum Excise Tax Revenue to Puerto Rico and the Virgin Islands	12/31/05	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.8	
Special Rules for Pension Plans of Interstate Bus Companies	12/31/05	n.a.	**	**	*	*	*	*	*	*	*	*	*	*	
Tax Incentives for Investment in the District of Columbia	12/31/05	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.5	-1.7	
Treatment of Personal Credits Under AMT	12/31/05	n.a.	-0.6	-2.9	-3.2	-3.5	-3.9	-4.7	-6.7	-7.4	-8.3	-9.0	-14.0	-50.0	
Welfare-to-Work Tax Credit	12/31/05	n.a.	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.7	
Work Opportunity Tax Credit	12/31/05	n.a.	-0.1	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-1.3	-3.7	

Continued

Table 4-10.**Continued**

(Billions of dollars)

Tax Provision	Expiration Date	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Provisions That Expire Between 2006 and 2015														
Reduced Tax Rate on Repatriated Dividends	10/20/06	n.a.	*	-0.3	-2.6	-3.5	-4.6	-5.3	-6.1	-7.0	-8.1	-9.3	-11.0	-46.9
Andean Trade Preference Initiative	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	-0.1	-0.3
Biodiesel Fuel Tax Credit	12/31/06	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.4	-1.2
Credit for IRA and 401(k)-Type Plans	12/31/06	n.a.	n.a.	-0.5	-1.5	-1.4	-1.3	-1.3	-1.3	-1.2	-1.1	-1.0	-4.8	-10.6
Depreciation for Clean-Fuel Automobiles	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	*	-0.1
Disposition of Electric Transmission Property	12/31/06	n.a.	0.4	-0.2	-0.7	-0.6	-0.4	-0.3	-0.2	-0.2	-0.1	-0.1	-1.6	-2.6
Generalized System of Preferences	12/31/06	n.a.	n.a.	-0.3	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-2.4	-6.5
Reduction in Policyholder Dividends for Insurance Companies	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	*	*
Subpart F for Active Financing Income	12/31/06	n.a.	n.a.	-0.8	-2.3	-2.6	-4.0	-4.6	-5.1	-5.6	-6.1	-6.8	-9.8	-38.0
Tax Incentives for Areas of New York City Damaged on 9/11	Various ^a	n.a.	n.a.	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-1.2	-2.4
Treatment of Income of Electric Cooperatives	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	-0.1	-0.3
African Growth Opportunity Act	09/30/07	n.a.	n.a.	n.a.	*	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.4
Depreciation Period for Motor Tracks	12/31/07	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	-0.1	-0.3
Dividends of Mutual Funds	12/31/07	n.a.	n.a.	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6
FUTA Surtax of 0.2 Percentage Points	12/31/07	n.a.	n.a.	n.a.	1.0	1.4	1.5	1.5	1.5	1.5	1.5	1.5	3.9	11.5
New Markets Tax Credit	12/31/07	n.a.	n.a.	n.a.	-0.1	-0.3	-0.4	-0.6	-0.8	-1.0	-1.2	-1.3	-0.8	-5.9
Section 179 Expensing	12/31/07	n.a.	n.a.	n.a.	-2.6	-4.5	-3.2	-2.4	-2.0	-1.6	-1.4	-1.4	-10.3	-19.1
Tax Credit for Maintaining Railroad Tracks	12/31/07	n.a.	n.a.	n.a.	*	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0
Suspension of Alcohol Occupational Taxes	06/30/08	n.a.	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6
Caribbean Basin Initiative	09/30/08	n.a.	n.a.	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.8
Expensing of Film and TV Productions	12/31/08	n.a.	n.a.	n.a.	n.a.	*	-0.1	-0.1	-0.1	*	*	*	-0.1	-0.4
Reduced Tax Rates on Dividends and Capital Gains	12/31/08	n.a.	n.a.	n.a.	-2.6	-13.0	-9.7	-24.5	-25.4	-27.1	-28.8	-30.5	-25.4	-161.6
Empowerment and Renewal Zones	12/31/09	n.a.	n.a.	n.a.	n.a.	n.a.	-0.8	-1.6	-1.8	-2.0	-2.1	-2.3	-0.8	-10.7
Exclusion of Gain on Brownfield Transactions	12/31/09	n.a.	n.a.	n.a.	n.a.	**	**	**	**	*	-0.1	-0.1	**	-0.1
Tax Incentives for Certain Diesel Fuel Production	12/31/09	n.a.	n.a.	n.a.	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3
10 Percent Income Tax Bracket	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-35.1	-50.5	-50.5	-50.1	-49.9	n.a.	-236.1
Alcohol Fuel Tax Credit	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1.3	-1.8	-1.8	-1.9	-1.9	n.a.	-8.7
Authority to Postpone Certain Tax Deadlines	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*	*	*	*	*	n.a.	*
Child Tax Credit at \$1,000	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-6.8	-34.1	-34.5	-35.0	-35.5	n.a.	-145.9
Earned Income Tax Credit Modification	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.2	-2.5	-2.5	-2.5	-2.5	n.a.	-9.7
EGTRRA Education Provisions	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1.6	-2.4	-2.7	-3.1	-3.3	n.a.	-13.2
EGTRRA Pension Provisions	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1.9	-3.6	-4.3	-5.0	-5.6	n.a.	-20.3
Estate and Gift Tax Changes	12/31/10	n.a.	-2.0	-1.5	-1.9	-1.7	-2.4	-29.0	-51.0	-55.3	-60.8	-65.0	-9.5	-270.6
Income Tax Rates of 25, 28, 33, and 35 Percent	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-42.8	-62.9	-65.4	-68.5	-71.9	n.a.	-311.6

Continued

Table 4-10.**Continued**

(Billions of dollars)

Tax Provision	Expiration Date												Total, 2006- 2010	Total, 2006- 2015
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Itemized Deduction and Personal Exemption Phaseout	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-6.0	-12.4	-13.4	-14.5	-15.7	n.a.	-62.0
Joint Filers' 15 Percent Bracket and Standard Deduction	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-5.5	-7.4	-6.8	-6.3	-5.9	n.a.	-31.9
Other Provisions of EGTRRA ^b	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.3	-0.9	-0.9	-0.9	-1.0	n.a.	-4.0
Small Ethanol-Producer Credit	12/31/10	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	*	-0.2
Transfer of Excess Assets in Defined-Benefit Plans	12/31/13	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**	**	n.a.	0.1
IRS User Fees	09/30/14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.1	n.a.	0.1
All Expiring Provisions														
Interaction from Extending All Provisions Together		n.a.	0.9	2.4	2.6	2.7	2.9	-11.9	-34.0	-36.2	-37.9	-39.2	11.6	-147.5
Total		**	-15.5	-44.8	-64.8	-86.3	-94.7	-247.5	-357.6	-378.0	-400.8	-422.3	-306.1	-2,112.3

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: * = between -\$50 million and zero; ** = between zero and \$50 million; n.a. = not applicable; AMT = alternative minimum tax; IRS = Internal Revenue Service; IRA = Individual Retirement Account; FUTA = Federal Unemployment Tax Act; EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001.

These estimates assume that the expiring provisions are extended immediately rather than when they are about to expire. The provisions are assumed to be extended at the rates or levels existing at the time of expiration. The estimates include some effects on outlays for refundable tax credits. They do not include debt-service costs.

- a. The provisions that increase expensing under Section 179 and allow a five-year lifetime for leasehold improvements expire on 12/31/2006. The provisions related to partial expensing for property placed in service expire on 12/31/2006 and 12/31/2009.
- b. Includes provisions related to the adoption credit, dependent care credit, and the employer-provided child care credit.

